

## MEMORANDUM

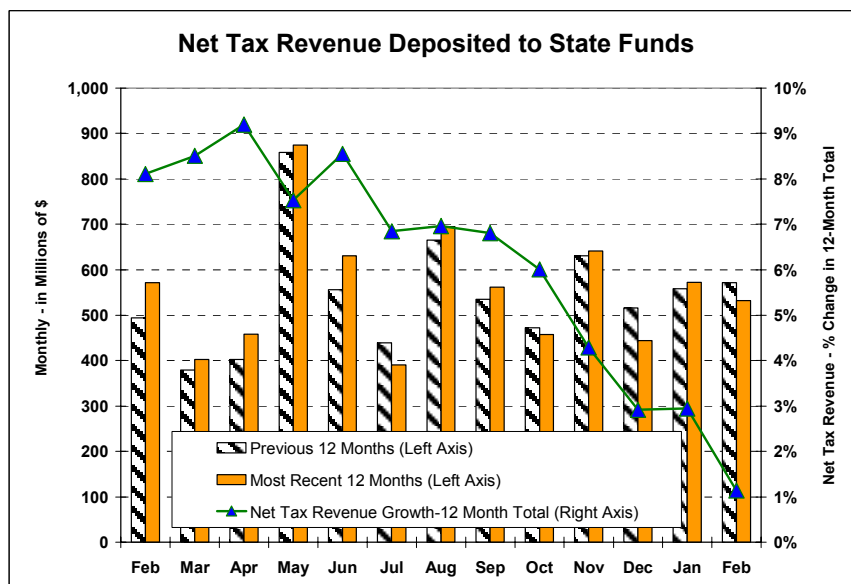
**TO:** Members of the Iowa Senate and  
Members of the Iowa House of Representatives

**FROM:** Jeff Robinson  
Shawn Snyder

**DATE:** March 16, 2009

### Twelve-month Total Net Tax Receipts Through February 28, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending February 2009 with comparisons to the previous 12 months. February 2008 to February 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Month of February Comparison

February net tax receipts totaled \$531.7 million, a decrease of \$39.6 million (- 6.9%) compared to February 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$8.6 million, - 4.9%) – Gross income tax receipts decreased \$4.0 million in February while income tax refunds were \$4.6 million higher for the month. Monthly year-over-year negative net income tax growth is rare, with only seven instances over the past 45 months. Three of those instances occurred over the past five months.
- Corporate Income Tax (negative \$26.2 million, - 91.9%) – Gross receipts decreased \$22.8 million and refunds increased \$3.4 million. Net corporate tax receipts have now decreased four of the past five months.
- Sales/Use Tax (negative \$4.6 million, - 1.6%)
  - Road Use Tax Fund use tax deposits decreased \$4.4 million.
  - General Fund sales/use tax receipts increased \$35.9 million and refunds issued for the month increased \$36.2 million (net decrease of \$0.3 million). The large increases in gross receipts and in refunds are related to the recently-enacted statewide sales/use tax increase for school infrastructure coupled with the elimination of the local option sales tax for school infrastructure. This change boosts State sales/use tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (positive \$5.8 million, 19.4%) – Gross fuel tax revenue increased \$4.2 million while refunds processed in the month decreased \$1.5 million. Fuel tax deposit timing appears very erratic and large monthly increases and decreases are common.
- Cigarette & Tobacco Taxes (negative \$1.2 million, - 6.8%) – The cigarette tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. Since reaching the one-year anniversary of increased revenue from the rate increases, cigarette and tobacco tax revenue has shown positive growth for five of ten months.
- Gambling Taxes (positive \$1.6 million, 6.8%)

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending February 2009, net revenue from all taxes deposited to State funds totaled \$6.658 billion, an increase of \$74.9 million (1.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$79.6 million, 2.8%) – The rate of individual income tax receipt growth has decreased significantly since peaking in April 2008 at 11.8% year-over-year.
- Corporate Tax (negative \$65.0 million, - 18.1%) – In November 2008, annual net corporate tax receipt growth became negative for the first time since August 2004.
- Sales/Use Tax (positive \$46.1 million, 2.1%) – Net sales/use tax receipts have been down each of the past three months compared to the same month the previous year and the annual percent growth has fallen from 4.1% to 2.1% over that time.
- Motor Fuel Tax (negative \$7.1 million, - 1.6%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of higher fuel prices through July 2008 and declining economic activity since then. According to Department of Revenue taxable gallons sales reports, over the most recent 12-month period Iowa gasoline/ethanol gallons sold decreased

2.1% while diesel sales were down 2.9%, the fourth consecutive month showing an annual diesel decline.

- Gambling Tax (positive \$0.6 million, 0.2%) – Despite a new Waterloo casino and expansion of the casinos in Clinton and Dubuque, three changes providing boosts to year-over-year gambling growth, gambling tax revenue is now flat year-over-year. According to Racing and Gaming Commission statistics, eight of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue growth for the 12-month period ending February 2008.
- Cigarette and Tobacco Tax (positive \$13.1 million, 5.5%) – Over the next three months, the year-over-year rate of revenue increase will continue to decline as the second anniversary of the tax increase approaches.
- Insurance Premium Tax (positive \$5.0 million, 5.0%) – The insurance premium tax rate was reduced over multiple years and is now fully implemented.

### **Tax Spotlight – Real Estate Transfer Tax**

The transfer of real estate is taxed under the authority of Chapter 428A, Code of Iowa. The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the 10th day of each month for tax collected during the proceeding month.

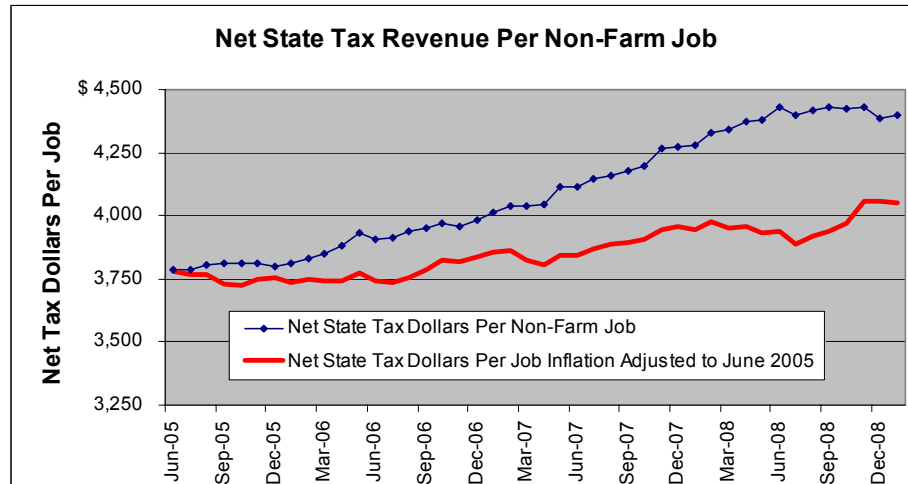
The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 95.00% is deposited in the State General Fund and 5.00% goes to the Shelter Assistance Fund. The Real Estate Transfer Tax dollars reflected in this report do not include the portion retained by counties.

During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. Beginning in FY 2010, the General Fund portion of the Real Estate Transfer Tax percentage will be reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund will not be impacted.

The Shelter Assistance Fund is administered by the Department of Economic Development (see Section 15.349, Code of Iowa). Money in the fund may be used for rehabilitation, expansion, or operating cost of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, not less than \$546,000 shall be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority (Section 16.181, Code of Iowa). Money in the fund is to be used for the development and preservation of affordable housing for low-income residents within the State.

## Tax Revenue and Employment

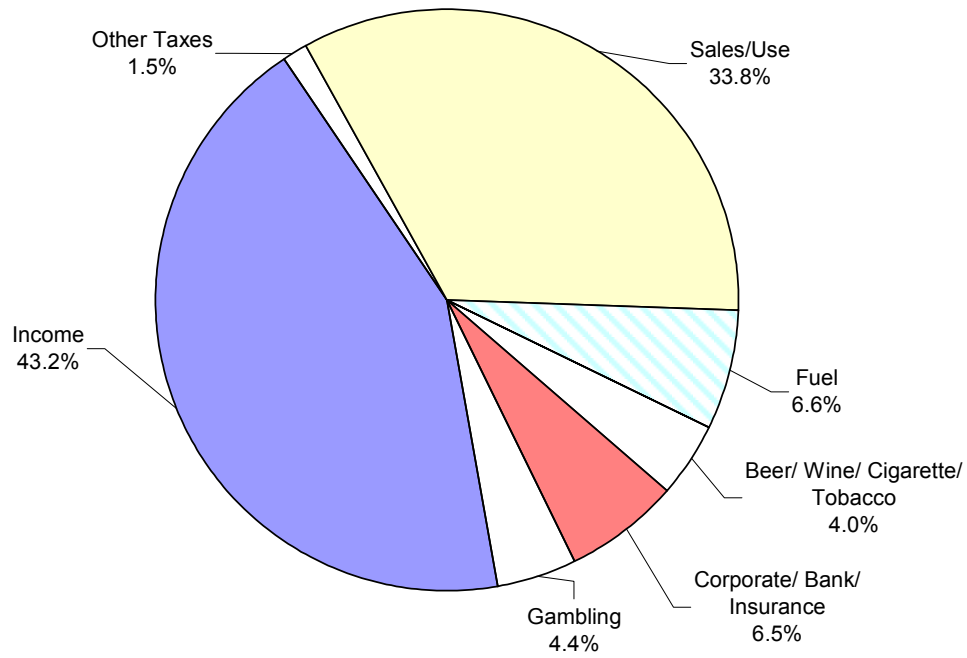
The average reading for Iowa non-farm employment over the 12 months ending January 2009 is 1,521,600, and net State tax receipts over the same 12 months totaled \$6.698 billion, or \$4,402 per non-farm job. This is \$617 (16.3%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 8.6%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 2.2% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending February 2009

**Net Revenue = \$6.658 Billion**

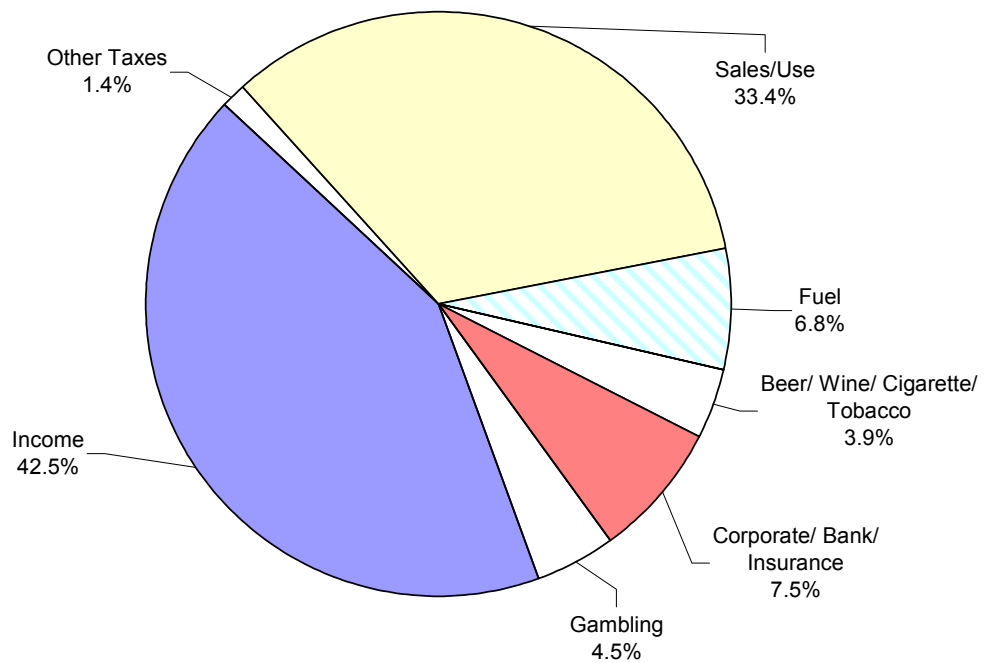
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending February 2008

**Net Revenue = \$6.583 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of February 2008</b>	<b>Month of February 2009</b>	<b>February \$ Change</b>	<b>February % Change</b>
Banking	\$ 31.5	\$ 31.3	\$ - 0.2	-0.6%	\$ 1.0	\$ 0.5	\$ - 0.5	-50.0%
Beer & Wine	20.6	20.8	0.2	1.0%	1.4	1.3	- 0.1	-7.1%
Cigarette & Tobacco	234.9	247.9	13.0	5.5%	17.4	16.2	- 1.2	-6.9%
Corporate Income	358.9	293.9	- 65.0	-18.1%	28.5	2.3	- 26.2	-91.9%
Fuel	447.9	440.8	- 7.1	-1.6%	29.9	35.7	5.8	19.4%
Gambling	294.2	294.8	0.6	0.2%	23.6	25.2	1.6	6.8%
Individual Income	2,797.7	2,877.3	79.6	2.8%	174.9	166.3	- 8.6	-4.9%
Inheritance	77.1	76.5	- 0.6	-0.8%	6.2	3.1	- 3.1	-50.0%
Insurance	100.8	105.8	5.0	5.0%	4.5	2.0	- 2.5	-55.6%
Other Taxes	- 0.4	5.3	5.7	-1425.0%	- 0.4	0.0	0.4	-100.0%
Real Estate Transfer	18.2	15.8	- 2.4	-13.2%	1.3	0.8	- 0.5	-38.5%
Sales/Use	2,202.1	2,248.2	46.1	2.1%	282.9	278.3	- 4.6	-1.6%
<b>Total Net Taxes</b>	<b>\$ 6,583.5</b>	<b>\$ 6,658.4</b>	<b>\$ 74.9</b>	<b>1.1%</b>	<b>\$ 571.2</b>	<b>\$ 531.7</b>	<b>\$ - 39.5</b>	<b>-6.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,288.8	\$ 7,658.6	\$ 369.8	5.1%	\$ 716.8	\$ 719.9	\$ 3.1	0.4%
Tax Refunds	\$ - 705.4	\$ - 1,000.1	\$ - 294.7	41.8%	\$ - 145.5	\$ - 188.2	\$ - 42.7	29.3%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,611.8	\$ 5,693.4	\$ 81.6	1.5%	\$ 494.3	\$ 451.8	\$ - 42.5	-8.6%
Road Use Tax Fund	\$ 704.6	\$ 708.7	\$ 4.1	0.6%	\$ 53.2	\$ 54.5	\$ 1.3	2.4%
Non-GF Gambling	\$ 233.3	\$ 233.0	\$ - 0.3	-0.1%	\$ 23.3	\$ 25.0	\$ 1.7	7.3%
Other State Funds	\$ 33.7	\$ 23.5	\$ - 10.2	-30.3%	\$ 0.5	\$ 0.4	\$ - 0.1	-20.0%
<b>Local Option Taxes *</b>	<b>\$ 693.9</b>	<b>\$ 763.9</b>	<b>\$ 70.0</b>	<b>10.1%</b>	<b>\$ 56.6</b>	<b>\$ 70.2</b>	<b>\$ 13.6</b>	<b>24.0%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All corporate tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited to the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.